Administration, vol. 66, no. 4 (2018), pp. 1–24
doi: 10.2478/admin-2018-0030

Austerity and Irish local government expenditure since the Great Recession

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Abstract

This paper sets out to establish the extent of austerity in the Irish local government system during and after the Great Recession. Austerity is measured by the adjusted change in local government expenditure from peak to trough years, and is analysed by type of expenditure, service division and local authority. Stripping out the change in local government current spending that is due to expenditure reassignments reveals that the austerity-related reduction in local government operating expenditure is not as large as often portrayed. As for other findings, there are sizeable differences across the aforementioned classifications, with, most notably, capital expenditure cuts far exceeding cuts in current expenditure. The largest decreases in total spending were on roads and housing services, and small rural county councils endured the most austerity, as measured by the initial reductions in current expenditure. In terms of policy implications, the biggest concern is the large infrastructural deficit that needs to be tackled, arising from austerity cuts in capital expenditure imposed at both central and local government level. As the economy recovers from the Great Recession and the subsequent era of austerity, failure to address this problem will hinder Ireland's international competitiveness, constrain the economy's future growth rate and result in impoverishment of public services at local level.

Keywords: Austerity, local government, expenditure adjustments, expenditure reassignments, Great Recession

Introduction

The topic of austerity has dominated economic and political discourse among technocrats, policymakers and the general public since the Great Recession. In academic circles in Ireland and abroad most of the debate has focused on central government and fiscal policy at the national level. Subnational fiscal policy and austerity measures imposed at subnational government level have attracted less attention. Indeed, the subnational dimension of the crisis has been rather neglected, in spite of having major implications for users of local and regional public services (Blöchliger et al., 2010). What we can say for sure is that in times of fiscal crisis central governments tend to force part of the fiscal adjustment on subnational government, but 'the jury is still out on whether they have done this in an even or uneven fashion in recent years' (Ahrend et al., 2013. p. 29).

Although there has been some analysis of local government austerity (for example, cross-country studies undertaken and published by OECD staff; individual country studies published in international academic journals such as *Local Government Studies*, *Fiscal Studies* and *Public Money & Management*), there has been much less than the voluminous material on austerity imposed at central government level. In the Irish case recent articles have examined the issue, but largely in the context of local government funding, financial performance measurement or public sector reforms (Considine & Reidy, 2015; Robbins et al., 2014; Turley & Flannery, 2013).

Other studies have looked at austerity in local government but largely in the context of reductions in employment numbers and/or wages. For example, Shannon (2016, p. 19), in research into the rationalisation of local and regional government bodies since 2012, noted that the 'local government level was also the hardest hit by employment cutbacks'. More specifically, Boyle (2015, p. 15), in a summary on public sector numbers, wrote, 'While numbers have fallen in all sectors since 2008, some have been affected significantly more than others. The biggest drop proportionally has been in local authorities (22 per cent). The smallest drop proportionally has been in the education sector (1 per cent).' Along similar lines the National Oversight & Audit Commission (NOAC) – the statutory body that oversees the local government sector – reported that there were reductions in salary costs at local government level of 27 per cent between 2008 and 2015 (NOAC, 2016). Although useful, these reports do not give the full picture in terms of the change in local government services and the total spending adjustments implemented by local authorities during the era of austerity. Our paper sets out to address this gap in the literature and make a contribution in terms of methodology and empirical findings. We measure austerity in the Irish local government system by calculating local authority total spending changes – current and capital – but adjusted for expenditure reassignments, i.e. spending functions no longer the remit of local government but reassigned to a different level of government, or a state agency not responsible to local government. Once calculated, we examine changes in local government expenditure by type (current or capital), by functional area or service division (eight in total), and by local authority (thirty-one in total, in 2015), with a view to measuring the duration and degree of austerity and identifying differences in the aforementioned spending classifications.

We begin by reviewing the international research literature on austerity as it relates to local government and local public finances.

Literature review

From the 1950s economists and historians began to use the term austerity to describe periods of restricted consumption and spending (Anderson & Minneman, 2014). In the context of the 2008 financial crisis, Anderson & Minneman (2014) define austerity as deficit reduction strategies adopted by governments that focus on government spending reductions and tax increases, while Cepiku et al. (2016) note that deficit and debt reduction, and expenditure control, together with the elimination of inefficiencies, are often cited as the aims of austerity policies. We set out our conceptual framing for this paper by examining the literature on austerity at local government level in countries impacted by the recent financial crisis and the Great Recession and, in particular, examine the implications of reductions in capital expenditure at local government level. This approach positions our paper in a global context while also adhering to good practice in terms of drawing on lessons learned elsewhere.

In the US, as in many European countries, reduced economic growth following the financial crisis resulted in a significant fall in revenues concurrent with an increase in higher social spending on unemployment benefits and social supports for individuals and families (Lobao & Adua, 2011). In many US states there were substantial cuts in services, wages, benefits and employment at local level (Wolff & Fraad-Wolff, 2011), all of which have had negative effects on local economies (Glasmeier & Lee-Chuvala, 2011). Now there is a call for more redistributive state policies given that decentralisation of services provision by US local authorities has exacerbated spatial inequalities – in particular, rural disadvantage has deepened (Kim & Warner, 2018).

Since 2008 governments throughout Europe have been under pressure to consolidate their public finances and implement austere fiscal measures, primarily in the form of cuts in public spending but also increases in revenues, from tax and other sources (Robbins & Lapsley, 2014). Unlike national or central governments, local governments are limited in terms of their ability to respond to the crisis because they are often subject to strict subnational fiscal rules, control only a narrow revenue base and/or enjoy limited tax autonomy, and are responsible for spending that is mandatory or, given the nature of its spending functions (e.g. in education, health and social protection), entails high political and social commitments and costs (Vammalle & Hulbert, 2013). Despite these constraints, and significant cross-country differences in the response of local policymakers, many local governments implemented and oversaw fiscal austerity, stemming from, in many cases, a fiscal squeeze and smaller budgets. Analysis of the response of governments at both central and local level in countries impacted by the recent recession shows retrenchment of public spending 'on a scale not seen for decades' (Kitson et al., 2011, p. 292). Consolidation of finances at local government level in OECD countries was initially and largely achieved through spending cuts. Some economies have suffered greater negative economic effects than others and strategies on how best to respond to the recent fiscal crisis 'are still evolving' (Bailey et al., 2015, p. 579).

Broadening our review, we note that in OECD countries many central governments cut their transfers to subnational government, thereby directly affecting the latter's fiscal position (Ahrend et al., 2013). In the UK the heaviest government budget reductions were experienced at local government level, including very significant reductions in central grant funding (HM Treasury, 2015). These budget cuts have led to strong cumulative and negative effects, and it is considered that UK local government is in the grip of super-austerity (Lowndes & Gardner, 2016). However, cuts have not been proportionate across the UK. In Scotland cuts were slightly lower than in the rest of the UK as the Scottish Government chose to shelter local authorities to some extent (Bailey et al., 2015). Innes & Tetlow (2015,

p. 303) found that, in England, local authorities with the smallest revenue-raising capacity 'have on average actually seen the largest spending cuts'. France froze the main transfer to subnational governments in 2010 until 2013. In Greece central government transfers to subnational governments increased, but at the same time new responsibilities were transferred to them (more later on the issue of expenditure reassignment in the Irish context), making it difficult to estimate the net change in transfers (Ahrend et al., 2013). In Spain transfers fell automatically because the formula is based on central government revenues, which decreased. It has been assessed that cuts adopted by Spanish local governments did not significantly impact the core functions of local institutions, nor did they address drastic changes in organisational performance; instead, they focused on organisational stability, in the hope that they could 'weather the storm' (Medir et al., 2017, p. 642). However, adjustments to current and capital expenditures have not been proportionate in many countries, with possible unintended consequences.

Capital expenditure by local governments has been shown to have a significant effect on economic growth, and concerns have been expressed about the adverse consequences of significant reductions in capital expenditure at local government level on economic development (Afonso, 2014) and on economic performance (Arezki & Ismail, 2013). After an initial delay, much of the austerity and expenditure cuts in European countries were achieved by curtailing capital investment at local government level. This is particularly worrying, given that local (and regional) governments in European countries are responsible for significant investment and infrastructural projects (Davey, 2012).

Our research questions emerge from the review of the literature above. What has been the impact on local government budgets and local authority spending over the period of austerity from 2007/8 to 2014/15? Has there been a significant change or difference between current and capital expenditure by local governments? In addressing these questions, it will be necessary to recognise and adjust for the reassignment of functions from local government to central government, state agencies or publicly owned enterprises to provide certain services heretofore provided at local level. We provide further detail on our methodology after the next two sections, which briefly outline EU local government expenditure changes, and the functions and funding of local government in Ireland.

Context

EU local government expenditure

Overall, local governments across the EU have had to contribute to the fiscal adjustment and consolidation of the public finances of general government. In many cases, albeit some with a time lag, this has resulted in a shrinking of local budgets, despite the post-crisis general recovery in economic activity and the resilience of local councils in responding to these challenges (Ahrend et al., 2013; Davey, 2012; Turley & McNena, 2018). Table 1 reports the cross-country change in local government expenditure in EU member states for the period 2008–15, using data from the International Monetary Fund (IMF) Government Finance Statistics and the OECD Fiscal Decentralisation Database.

For comparative purposes, we report EU countries only. As the two sources (IMF and OECD) define local government expenditures differently, it is not unexpected that the percentage changes for any one country are not the same. However, there is consistency across the two data sets in the overall change (that is, increase or decrease) in each country's local government expenditure for the period 2008 to 2015 and, in terms of the magnitude of the change, the relative position of each country's change in local government spending. Whereas the majority of countries witnessed an increase in local government spending between 2008 and 2015 (in nominal terms), a small number of countries experienced a fall in local government expenditure. Not surprisingly, this latter set of countries included the economies most affected by the economic and fiscal crisis, namely Hungary, Latvia and most especially the so-called PIIGS (Portugal, Italy, Ireland, Greece and Spain). Whereas both databases confirm that the largest reductions in local government spending occurred in Ireland, Greece, Latvia and Hungary, it was Ireland's local government system that experienced the biggest reduction, as measured by the 2008–15 change in local government expenditure.

Using this to set the scene, so to speak, we now focus on the case of Ireland, its local government functions and funding, changes in local government spending since the onset of the economic crisis, and the degree of austerity witnessed by the Irish local government system, followed by a discussion of our findings in terms of likely consequences.

Table 1: EU cross-country changes in local government expenditure, 2008–15[1]

	IMF data[2]	*OECD data*[3]
Ireland	–32.6	–56.9
Hungary	–31.3	–12.6
Greece	–24.7	–29.9
Latvia	–12.4	–21.4
Portugal	–6.8	–16.4
Spain	–2.5	–13.0
Italy	–1.3	–4.8
Croatia[4]	0.9	–
Slovenia	3.3	1.3
UK	4.1	3.5
Netherlands	6.1	2.8
Lithuania	7.1	–
Cyprus	7.3	–
Czech Republic	7.9	23.2
Estonia	15.4	7.1
France	18.8	13.2
Denmark	22.3	21.2
Belgium	22.9	21.5
Austria	24.8	22.9
Finland	26.9	27.0
Sweden	26.9	28.9
Germany	27.7	26.5
Poland	27.8	27.7
Romania	27.8	–
Luxembourg	30.7	23.8
Slovak Republic	31.4	40.2
Bulgaria	34.2	–
Malta	52.7	–

Source: IMF Government Finance Statistics, OECD statistics, authors' calculations.

Notes:

1. As we report nominal data only, we use 2008 as our start date and not 2007 when some Eastern European countries had double-digit inflation rates.
2. The IMF Government Finance Statistics define local government expenses as a decrease in net worth resulting from a transaction. The IMF data are adjusted by deducting consumption of fixed capital (a non-cash imputed flow) from local government expenditure, so as to calculate a better measure of expenditure on public services.
3. The OECD defines consolidated expenditure of each level of government as total spending minus the inter-governmental transfer spending of that government level.
4. The percentage change for Croatia is for the years 2008–14, as 2015 data are not available.

Functions and funding of local government in Ireland

Expenditure assignment

In terms of expenditure assignment, Irish local governments have a narrow range of functions, mainly focused on providing services to properties rather than services to people. They are responsible for regional and local roads, social housing, water services (until 2014), environmental services, development management, local recreational facilities and amenities, third-level education grants (until 2012) and various other local services. Central government is responsible for the vast majority of healthcare and education services provision, as well as most social protection transfer payments. During 2018 local councils planned to allocate about €4.8 billion to current expenditure, compared to planned current expenditure by central government of €56 billion. During 2009–15 local government expenditure was between 2-4 per cent of GDP (well below the EU average), and trended downwards.

Before the abolition of town and borough councils in 2014, a county council provided various services on behalf of a town council within the county, with the town council paying the county council in return. In other cases, a council provides services for a neighbouring council; e.g. Galway County Council provides the library service across Galway city and county, with Galway City Council paying the County Council for the service.

During 2009–15 there were significant reforms to expenditure assignment. The central government reassigned responsibility for the provision of water and wastewater services, third-level education grants and driving licences from local government, reducing further its already limited range of functions. In contrast, arising from the 2014 local government reforms, local authorities assumed responsibility for local enterprise supports.

Revenue assignment

Local governments in Ireland receive revenue from both local and central sources. Local revenues are comprised of a business property tax known as commercial rates, charges and fees for various services, and a residential property tax known as the Local Property Tax (LPT), introduced in 2013. Local own-source revenues do not cover assigned expenditures, so the central government pays specific-purpose grants and general-purpose grants to all local governments to cover the vertical fiscal imbalance. The most significant specific-purpose grants are for social housing and regional and local roads. In 2015 the composition of revenue changed, as general-purpose grants were replaced with LPT allocations, thus increasing the share of own-source revenues.

In terms of tax autonomy, councils have a limited amount of powers. A central agency, the Valuation Office, assesses the rental value of commercial properties, which is the tax base of the commercial rates tax. The councils set the tax rate, known as the annual rate on valuation. Councils control the fees that they charge for local services – e.g. parking, swimming pools, etc. Central government sets both the tax base for the LPT, which is the value of residential properties, and the main LPT tax rate. However, local governments have the discretion to set their annual LPT rate 15 per cent higher or lower than the basic rate.

Equalisation

The general-purpose grants paid to local governments until 2014 had two functions: they helped to correct the vertical fiscal imbalance and they were an equalisation grant, attempting to reduce horizontal fiscal disparities. During the 2000s the central government used a needs and resources model to determine the allocation of general-purpose grants. The model determined the equalisation grant based on the expenditure needs and fiscal capacities of each local authority. The equalisation system was redesigned in 2015, with councils allocated 80 per cent of their local LPT yield to replace the previous general-purpose grants. The remaining 20 per cent of LPT revenues are used to make equalisation transfers to those councils where 80 per cent of their LPT receipts are less than their 2014 general-purpose grants payment, called the baseline.

In the next section, we present our methodology for measuring austerity and identify local government expenditure adjustments.

Measuring austerity and local government expenditure adjustments

As previously stated, the purpose of this paper is to measure the change in local government expenditure since the start of the Great Recession and, in doing so, quantify the extent of austerity witnessed by local governments in Ireland. While prior research focused primarily on the revenue side of local government budgets (see Turley & Flannery, 2013; Turley & McNena, 2016), in this paper we concentrate on the spending side of the local public finances. The coverage is both current expenditure (commonly referred to as revenue expenditure) and capital expenditure, and the primary source of the data is the local authority audited annual financial statements (AFS). In terms of expenditure changes, we report both by service division and by local authority. We begin by reporting data on current expenditure, followed by capital expenditure and then overall total expenditure data, all at local government level. A comparison of total expenditure changes at local and central government levels is reported before we complete the section by showing local government current expenditure changes disaggregated by local authority.

The local government expenditure adjustments data are shown in Tables 2–3 and 5. The difficulty in interpreting the data is in the composition of the change in local government expenditure, as only some of the expenditure adjustments are due to austerity (that is, cuts in local services and public sector numbers and/or pay) while other spending adjustments are largely due to expenditure reassignments. In the case of the latter, the public services continue to be delivered but not by the local authorities, as the national government has reassigned the respective expenditure functions either to a different tier of government (in the Irish case, to central government), to a publicly owned enterprise or utility, or to a statutory state agency not responsible to local government.[1] Relevant examples during this period include educational support services, administration of driver licences, and water and wastewater services. In these three cases the delivery of these services has been reassigned from the local authorities to Student Universal Support Ireland (SUSI), the National Driver Licence Service (NDLS) and Irish Water, respectively.[2]

Table 2 shows local government current expenditure amounts by service division, as reported in the consolidated local authority AFS. For purposes of exposition we report the annual euro spending outturns for 2009 and 2015, capturing the year when local government

[1] In other EU countries certain local services have been privatised, outsourced or contracted out to other providers such as municipally owned enterprises, inter-municipal bodies, public–private partnerships or non-profit voluntary organisations (often church affiliated).

[2] SUSI is Ireland's unified student grants scheme, and is operated by the City of Dublin Enterprise and Training Board. Prior to 2012 higher and further education student grants were administered by 66 VECs and local authorities. NDLS is operated by the Road Safety Authority, and since January 2013 delivers the learner permit and driver licence service. Irish Water was established as a public national utility in July 2013. Set up as a subsidiary of the Ervia Group (formerly Bord Gáis Éireann), it is responsible for the provision of water and wastewater services in Ireland.

Table 2: Local government current expenditure, by service division, 2009–15

Expenditure by service division	*2009 (€)*	*% share*	*2015 (€)*	*% share*	*Total % Δ peak–trough (2009–15)*
Housing and building	721,360,845	0.15	815,221,741	0.21	13
Roads, transportation and safety	916,747,019	0.19	828,041,961	0.22	–10
Water services	786,432,169	0.16	385,206,178	0.10	–51
Development management	305,805,712	0.06	299,588,304	0.08	–2
Environmental services	889,715,691	0.18	636,725,044	0.17	–28
Recreation and amenity	404,268,533	0.08	377,923,355	0.10	–7
Agriculture, education, health & welfare	406,399,655	0.08	52,867,373	0.01	–87
Miscellaneous services	388,654,275	0.08	397,166,136	0.10	2
Total expenditure	4,892,238,882		3,792,740,092		–22

Source: AFS, authors' calculations.

operational expenditure was at a peak (in 2009) and when current spending was at its lowest (in 2015), as expressed in current prices.[3] The percentage share for each service division is also given for both years. We also report the percentage change for this period, both for each service division and for the total. The change in total current expenditure for the six-year period 2009–15 is a reduction of €1.1 billion or, expressed as a percentage of the 2009 total current expenditure, 22 per cent.

We then proceed to strip out the estimated change in local government current spending that was due to expenditure reassignments (see specific details below). During this period the two significant expenditure reassignments from local government were in

[3] There was little change in prices during this period, with (consumer) prices actually falling in 2009, 2010 and 2015, and small increases in the intervening years. Most price indices show very little change between 2008/9 and 2014/15.

the areas of educational supports (reported in the agriculture, education, health and welfare division) and water and wastewater services. Total current spending reductions in these two functional areas amounted to approximately €750 million over the six-year period. We make one final and minor adjustment for the new economic, community and local development functions assigned *to* local authorities arising from the 2014 local government reforms. Albeit not significant, the increased local authority spending in this period in the community and enterprise function and the economic development and promotion function was a little over €50 million. This leaves us with a net figure for expenditure reassignments of approximately €700 million. When this is deducted from the total reduction of €1.1 billion, it leaves a figure of €400 million, approximately. This estimate, and not the total €1.1 billion amount, is a more accurate measure of the austerity-induced day-to-day spending cuts that were implemented at the local government level in Ireland between 2009 and 2015. These expenditure cuts and efficiency savings were largely in the areas of roads spending (more specifically, on local and regional road maintenance and improvement) and environmental services (most especially in the provision of waste collection services and the operation and maintenance of landfill, arising from the privatisation of waste collection and disposal). Whereas the total fall in current expenditure from peak in 2009 to nadir in 2015 was in the order of 22 per cent, we estimate that about two-thirds of the total adjustment was due to expenditure reassignments, with the remaining one-third *only* accounted for by austerity-related expenditure cuts.

These expenditure reassignments from local government began in 2012 with the establishment of SUSI to administer student grants, and more controversially in 2013/14 with the setting up of Irish Water to deliver water and wastewater services. The decrease in local authority spending on agriculture, education, health and welfare services (from 2011/12) and on water services (from 2014/15) roughly coincides with the combined spending by SUSI on educational support services and by Irish Water on water and wastewater services for the same period. The local authorities were spending in the region of €370–90 million per annum on educational support grants before 2012, whereas SUSI's annual student grant scheme has been in the order of €375 million. As for water services, the reduction in current spending by the local authorities in 2015 has been largely matched by Irish Water's operational water and wastewater costs, estimated at over €270 million in 2014 (Comptroller & Auditor General, 2015a; Irish Water, 2015).

Although local authority expenditures, according to our estimates, were about one-twelfth lower because of austerity-related government cuts, the amount of austerity, albeit not insignificant, is surprising as media and press coverage generally reported greater levels of austerity in the form of cuts to local authority services.[4] Examining the different service divisions, we note that during the initial years of austerity all of the major services, with the notable exception of housing (see analysis on capital spending, where housing expenditure witnessed a big decline), experienced a reduction in spending. Between the years 2009 and 2015, whereas housing and building increased its percentage share from 15 per cent to 21 per cent, the water services and agriculture, education, health and welfare shares fell, from 16 per cent and 8 per cent to 10 per cent and 1 per cent, respectively. By 2015 local government, with an already limited remit in terms of functions and responsibilities, had become even more concentrated in terms of the scope of public services delivery. Three functions, namely housing, roads and environmental services, accounted for 60 per cent of total current spending.

Whereas the scale of the cutbacks in day-to-day spending on the provision of local services is not as large as often perceived or reported, the capital expenditure changes are particularly significant and alarming. Table 3 shows local government capital expenditure outturns, as reported in the consolidated AFS. As with Table 2 we report the annual euro amounts for the years when capital spending was at a peak and at its lowest, in 2007 and 2014, respectively. The percentage share for each service division is also given for both years. We also report the percentage change for this period, both for each service division and for the total. The change in total capital expenditure for the period 2007–14 is a reduction of €5.8 billion or, expressed as a percentage of the 2007 total capital expenditure, 84 per cent.

Next, we strip out the estimated change in local government capital spending that is due to expenditure reassignments, and, in particular, the reassignment of water services to the national utility Irish Water. In January 2014 Irish Water assumed responsibility for the provision of water and wastewater services in Ireland. This accounts for the large

[4] One such example can be found in the following link: http://www.southmayo.com/images/stories/downloads/OLA_Local_Government_in_Times_of_Austerity_June_20122.pdf

Table 3: Local government capital expenditure, by service division, 2007–14

Expenditure by service division	*2007 (€)*	*% share*	*2014 (€)*	*% share*	*Total % Δ peak–trough (2007–14)*
Housing and building	2,972,981,363	0.43	351,532,032	0.33	–88
Roads, transportation and safety	1,892,849,329	0.28	322,004,031	0.30	–83
Water services	971,600,079	0.14	90,372,762	0.08	–91
Development management	327,724,140	0.05	78,114,365	0.07	–76
Environmental services	202,065,126	0.03	52,999,883	0.05	–74
Recreation and amenity	237,802,325	0.03	98,855,775	0.09	–58
Agriculture, education, health & welfare	18,085,234	0.00	20,738,640	0.02	15
Miscellaneous services	250,459,244	0.04	56,337,921	0.05	–78
Total expenditure	6,874,566,940		1,070,955,408		–84

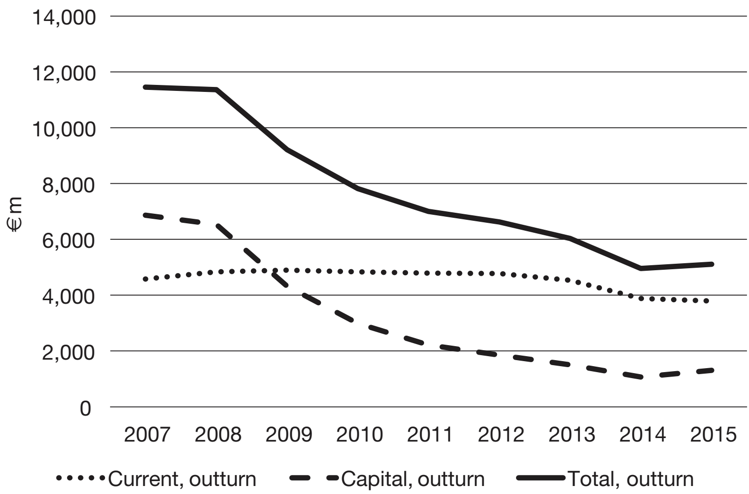
Source: AFS, authors' calculations.

reduction in capital spending on water services in 2014, as reported in the AFS. With service-level agreements (SLAs) and individual annual service plans in place between Irish Water and the local authorities, the fall in capital spending in 2014 on water services by the local authorities of about €300 million was more or less matched by the amount Irish Water spent on its water capital programme in that same year (Irish Water, 2014).[5] Removing this from our calculations, we estimate that austerity imposed in the form of local government capital spending cuts was in excess of €5 billion. This austerity-related reduction in capital spending from a peak of almost €7 billion in 2007

[5] The SLA requires Irish Water to remunerate each local authority for staff costs arising under the SLA, while local authorities provide water and wastewater functions (operational and maintenance) on behalf of Irish Water. From 2014 the capital commitments previously funded by the department under the Water Services Investment Programme became the responsibility of Irish Water (Comptroller & Auditor General, 2015b).

is very large, and amounts to something in the order of a 75 per cent reduction, in nominal terms. To put this another way, approximately three-quarters of the capital programme undertaken by local government was slashed, largely in the form of cuts in spending on local authority housing, roads and, up to 2013, water services. Whereas this mirrors the policies implemented by central government, namely to favour cuts in capital expenditure (often as it is the politically easier choice to make), the size of the adjustment is very large; local government capital expenditure fell from almost €7 billion in 2007 to a low of just over €1 billion in 2014.

Figure 1: Local government total expenditure, 2007–15 (€m)



We now combine current and capital spending at the local government level to get an overall indicator of the expenditure adjustment and the degree of fiscal consolidation on the spending side of the local public finances. Total local government expenditure peaked in 2007/8, at just under €11.5 billion (see Figure 1). By 2014 total local government spending had fallen below €5 billion, equivalent to a reduction of approximately 57 per cent (in nominal terms and as reported in Table 4). How does this compare with the size of central government total expenditure adjustments? Using post-budget data from the Revised Estimates Volume, total central government expenditure peaked in 2009, at almost €64 billion, comprising €56.6 billion of current spending and €7.3 billion of capital spending. By 2014 total central government spending had fallen to a low of €53 billion (€49.6 billion current and €3.3 billion capital), a reduction of 17 per cent. From peak to trough, the reduction in central government current spending (€56.6 billion in 2009 to €49.6 billion in 2015) was 12 per cent whereas the reduction in central government capital spending (€9.1 billion in 2008 to €3.3 billion in 2014) was 63 per cent. A comparison of the expenditure adjustments by local and central governments, using data for current and capital spending in the peak and nadir years, is shown in Table 4. When current and capital spending are combined, the total expenditure adjustment by local government far exceeds central government's spending adjustments, in terms of both the amount and the duration of the fiscal adjustment on the expenditure side of government budgets. This difference in local versus central government expenditure adjustments in Ireland is reported in earlier research (see Turley & Flannery, 2013) but this analysis was limited as data were then only available for the early years of the economic crisis. With the passage of time we can now see the full extent of the expenditure adjustments, and the acute nature of the local government spending adjustments relative to central government expenditure changes.

Table 4: Local vs. central government expenditure changes

	Current expenditure	*Capital expenditure*	*Total expenditure*
Local government			
Peak–trough	2009–15 = –22%	2007–14 = –84%	2007–14 = –57%
Central government			
Peak–trough	2009–15 = –12%	2008–14 = –63%	2009–14 = –17%

Source: Revised Estimates for Public Services, AFS, authors' calculations.

In terms of capital spending alone, total central and local government capital expenditure fell from over €15.5 billion in 2008 to about €5 billion in 2015, amounting to close on a 70 per cent reduction. It is clear from the analysis of both central and local government spending that a very large reduction took place in capital expenditure. This very large cut in capital expenditure raises serious concerns about the lack of public investment, the infrastructural deficit and the risks to international competitiveness that have resulted, and currently confront domestic policymakers as the economy recovers in a very challenging and uncertain global economic environment. Post the Great Recession, Eurostat data show that general government expenditure on gross fixed capital formation in Ireland was consistently lower than the EU average. By 2015 such expenditure of the general government sector was the lowest in the EU, at 1.7 per cent of GDP, and the expenditure within the local government sector was 0.3 per cent of GDP, just a quarter of the EU average. One impact of capital expenditure cuts is potentially slower future economic growth. Another impact is higher future costs of delayed maintenance. The IMF (2014) estimates that in a sample of advanced economies an extra 1 per cent of GDP spent on public infrastructure causes GDP to be 1.5 per cent higher after four years. The infrastructural deficit harms our competitiveness. Ireland is ranked twenty-fourth overall in the *Global Competitiveness Report 2017–2018*, but is ranked thirty-first in terms of infrastructure (World Economic Forum, 2017).

We now move to consideration of the distribution of the expenditure adjustments by local authority, and show this in Table 5. We report current expenditure only, as capital expenditure figures disaggregated by local authority are not readily available. Also, we report budgeted rather than actual expenditure amounts as the consolidated AFS does not report individual council expenditure data. Furthermore, the local authority AFS pre the abolition of the town governments only included data at the county level, and did not include spending by the borough or town councils. As we want to compare like with like for 2009 and 2015, we use the budgeted data from the local authority budgets publications. Table 5 shows the annual euro amounts for the peak and trough years 2009 and 2015, respectively, and the percentage change for each of the local authorities for this six-year period.

Given that the expenditure reassignment changes at the local government level took place from 2012 on, we use the individual local authority 2009–11 expenditure change as a proxy measure for the austerity-induced cuts in current local government spending. Using this change as a measure of austerity, there is considerable cross-council variation, as found in earlier related research on local authority public finances (see Robbins et al., 2014; Turley & McNena, 2016). In particular, using the 2009–11 change as a proxy measure of austerity cuts, there is a sizeable difference between the spending cuts of small rural county councils and the cuts implemented by larger urban councils.

Table 5: Local government current expenditure, by local authority 2009–15[1]

Local authority	*2009 (€)*	*2015 (€)*	*Total % Δ peak–trough (2009–15)*	*Estimated % Δ (austerity -related)*
Carlow County Council	59,871,620	51,171,500	–15	–5
Cavan County Council	74,633,933	54,365,753	–27	–11
Clare County Council	130,047,616	99,350,123	–24	–8
Cork County Council	379,761,990	289,176,248	–24	–13
Donegal County Council	190,604,361	131,256,053	–31	–14
Dún Laoghaire–Rathdown County Council	220,436,898	164,216,200	–26	–12
Fingal County Council	270,314,100	206,609,200	–24	–8
Galway County Council	159,340,148	105,278,107	–34	–7
Kerry County Council	173,530,584	123,854,078	–29	–9
Kildare County Council	152,013,111	136,093,555	–10	–8
Kilkenny County Council	88,248,494	65,550,001	–26	–8
Laois County Council	73,586,000	55,100,001	–25	–10
Leitrim County Council	44,699,268	34,504,086	–23	–11
Limerick County Council	125,892,138	–	–	–5
Longford County Council	58,074,955	38,137,307	–34	–18
Louth County Council	137,277,030	93,045,873	–32	–13
Mayo County Council	162,560,145	127,539,007	–22	–9
Meath County Council	119,300,681	97,858,997	–18	–10
Monaghan County Council	79,409,309	54,701,250	–31	–11
North Tipperary County Council	81,437,961	–	–	–7
Offaly County Council	76,004,484	56,554,612	–26	–11
Roscommon County Council	76,533,325	53,638,300	–30	–14
Sligo County Council	79,846,014	60,657,822	–24	–9
South Dublin County Council	284,254,700	219,295,400	–23	–12
South Tipperary County Council	116,858,774	–	–	–14
Waterford County Council	85,970,998	–	–	–12
Westmeath County Council	88,760,457	64,380,270	–27	–13
Wexford County Council	135,760,933	99,033,771	–27	–9
Wicklow County Council	135,974,761	98,537,756	–28	–12
Cork City Council	199,162,300	152,412,100	–23	–1
Dublin City Council	928,731,361	773,015,213	–17	–10

Table 5: Local government current expenditure, by local authority 2009–15[1] (contd.)

Local authority	*2009 (€)*	*2015 (€)*	*Total % Δ peak–trough (2009–15)*	*Estimated % Δ (austerity -related)*
Galway City Council	93,182,487	75,841,528	–19	–8
Limerick City Council	88,747,627	–	–	–2
Waterford City Council	66,375,437	–	–	–10
Limerick City & County Council[2]	214,639,765	155,872,109	–27	–
Tipperary County Council[2]	198,296,735	138,663,824	–30	–
Waterford City & County Council[2]	152,346,435	119,769,051	–21	–

Source: Local authority budgets, authors' calculations.
Notes:
1. Before adjustment for inter-local authority contributions, but inclusive of borough and town councils (up to 2014) and municipal districts thereafter.
2. The 2009 figure is the sum of the respective councils that existed in 2009.

Generally, the more urban the local authority the bigger the income per capita (as measured by the CSO's administrative county data on disposable income per person) and the larger the local authority spending per capita (CSO, 2018). The councils with the largest proportionate day-to-day spending reductions during the 2009–11 years were nearly all in the Border, Midland and Western (BMW) region, including Longford, Roscommon, Donegal, Louth, Westmeath, Leitrim, Cavan, Monaghan and Offaly County Councils. In contrast, the councils with the smallest spending reductions were the more urban councils of Cork City Council, (former) Limerick City Council, Carlow County Council, Fingal County Council, Kildare County Council and Galway City Council. Of course, the latter set of councils were some of the local authorities that witnessed the largest percentage growth in population (and, as a result, increased expenditure needs) between the census years of 2011 and 2016 (CSO, 2016).

Two councils, namely Galway County Council and Cork City Council, witnessed relatively large reductions in spending between 2009 and 2015 (34 per cent and 23 per cent, respectively) but much smaller reductions between 2009 and 2011 (seven per cent and one per cent, respectively), suggesting that the size of their headline expenditure adjustments arising from austerity cuts was overstated. In contrast, Dublin City Council and Meath County Council both experienced smaller reductions in spending between 2009 and 2015 (17 per cent and 18 per cent, respectively) but in both cases a reduction of 10 per cent between 2009 and 2011, indicating that most of their expenditure adjustments were in the form of austerity cuts rather than expenditure reassignments. Notwithstanding these differences, it is the small rural county councils that have witnessed the most austerity, as measured by the reduction in local government current expenditure in the early years after the Great Recession.

As in the earlier research findings on the LPT and changes in the Local Government Fund and equalisation grants (see Turley & McNena, 2016), in recent years we have witnessed no improvement in the fiscal disparities and regional inequalities in the Irish local government system. Indeed, if anything, the gap in terms of the (notoriously difficult-to-measure) horizontal fiscal imbalances between local authorities in Ireland may have widened. Using the census years of 2011 and 2016, (budgeted) spending per capita in all local authorities fell, from €1,030 per person to €868 per person. Using the categorisation employed by the Department of Housing, Planning and Local Government since 2015 to allocate equalisation funding, the councils in surplus (ten in total, with the majority in the Southern & Eastern region of the country) have witnessed a 15 per cent average reduction in spending per capita, as compared with a larger 21 per cent average reduction by the councils in shortfall (twenty-one in total, the majority in the BMW region) for the same 2011–16 period. Although this should not be confused with regional policy and central government supports for local development, they are not unrelated, and it raises important policy challenges for different government departments, most especially the Department of Housing, Planning and Local Government and the Department of Rural and Community Development.

Conclusions and future research

Using published data from the local authority annual budgets and AFS, we report and analyse the change in local government expenditure during the austerity era. The contribution of our paper is in analysing this change and in highlighting the implications of same. In summary, both current and capital spending fell, with differences across service divisions and between rural and urban local authorities. As with central government capital spending, local authority capital expenditure adjustments have been very large, with the result that the country faces an infrastructural deficit which will threaten and constrain the economy's future growth rate and international competitiveness.

Our methodology and resultant analysis reveal that, when adjustments are made for expenditure reassignments in local government current spending, the estimated change in local government spending that is solely due to austerity measures is not as large as is often depicted. We recommend firstly that care needs to be taken when austerity is defined and discussed. We suggest secondly that while there may be an acceptance of spending reductions during periods of crisis and austerity, expenditure cuts at such times may result in – deliberately or otherwise – a weakening of local government's role and remit. Our analysis of the reductions in expenditure at local government level highlights the concurrent, increasingly concentrated and shrinking role (services provision in three main areas – housing, roads and environmental services) of Irish local government. This role is already very limited by European standards and raises concerns about further reducing decision-making at local level.

Our analysis also raises questions that are outside the remit of this paper and these provide possible fruitful areas for future research. Although these years of austerity have, not surprisingly, coincided with a period of reform in the public sector and in the local government sector, more remains to be analysed by researchers to assess impacts on local government services provision and infrastructural capacity. One such line of inquiry for the local government research community is an assessment of the impact of austerity measures and the broader local government reforms on local public services, and on users of these local services. Two ways to assess the impact of austerity measures and the broader local government reforms on local public services are a quantitative analysis of the local authority services or performance indicators over time and more qualitative research focusing on internal organisational reform and change. Ten years on from the Great Recession, enough time has now elapsed to adequately assess the impact of the economic crisis, austerity measures and policy reforms on local government services and outcomes using the evidence that emerges from research on performance indicators and citizen surveys on local public services.

Another related issue is the determinants of local authority expenditure, and, in particular, the variations in city/county council spending per capita. This is part of a bigger research question looking at the perceived relationship between local government performance, costs and size, and the economic arguments for and against local council mergers. In particular, we wish to investigate the claim that larger councils exhibit efficiency gains and cost savings as compared to councils with fewer inhabitants. As we are dealing with the provision of local public services it is not clear that economies of scale necessarily exist when local government units produce and/or deliver goods and services. International evidence across space and time for scale economies and an optimum local authority size is mixed and inconclusive, with disputed costs and benefits that arise from local government amalgamations.

However, the austerity that Irish local authorities have witnessed since the Great Recession is not disputed. This paper measures this austerity using adjusted local government expenditure changes, and reports important insights and some surprising findings.

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